

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7221

BILL NUMBER: SB 378

NOTE PREPARED: Feb 4, 2003

BILL AMENDED: Feb 4, 2003

SUBJECT: Industrial Recovery Site Tax Credits.

FIRST AUTHOR: Sen. Server

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) The bill allows a city council to designate as an industrial recovery site certain industrial facilities that are not vacant but that are otherwise disadvantaged, so that investments to improve such an industrial facility are eligible for the Industrial Recovery Tax Credit.

Effective Date: July 1, 2003.

Explanation of State Expenditures: (Revised) The Enterprise Zone Board, the Indiana Department of Commerce (IDOC), and the Department of State Revenue (DOR) could potentially incur some administrative expenses relating to the review and approval of additional Industrial Recovery Tax Credits. However, since the scope of the new tax credit authority granted in the bill appears to be very limited, these expenses presumably could be absorbed given the existing budget and resources of both the IDOC and the DOR. The December 7, 2002, state staffing table indicates that the IDOC has 52 vacant full-time positions, including regional office positions.

As required by current law, the DOR must calculate the allowable tax credit and determine whether the expenditures made by the taxpayer are for a qualified investment. In addition, the bill requires the Enterprise Zone Board to consider the following factors in approving a property in Evansville for the Industrial Recovery Tax Credit:

- (1) The level of distress in the surrounding community caused by the threat of the loss of jobs at the disadvantaged industrial facility.
- (2) Evidence of support for the designation by residents, businesses, and private organizations in the

surrounding community.

(3) Evidence of efforts by the municipality or county to implement the proposed plan without additional financial assistance from the state.

(4) Whether the industrial recovery site is within an economic revitalization area under current law.

Explanation of State Revenues: (Revised) The bill could potentially reduce state revenue from the Adjusted Gross Income (AGI) Tax, Insurance Premiums Tax, or Financial Institutions Tax provided the Enterprise Zone Board designates property in the state as an industrial recovery sites eligible for the Industrial Recovery Site Tax Credit. Since the bill is effective beginning July 1, 2003, reductions could begin as early as FY 2004. However, the extent of this fiscal impact is indeterminable.

Background Information: Under current law, a taxpayer is entitled to a credit against the Adjusted Gross Income, Insurance Premiums, or Financial Institutions Tax liability for “qualified investment” on an industrial recovery site. Qualified investment may consist of expenditures by the taxpayer for rehabilitation (including remodeling, repair, or betterment of real property in any manner or any enlargement or extension of real property, or the installation, repair, or retrofitting of personal property) located within an industrial recovery site under an approved plan by the Enterprise Zone Board. Revenue from the applicable taxes is deposited in the state General Fund and the Property Tax Replacement Fund.

Under the bill, a “disadvantaged industrial facility” could qualify for the Industrial Recovery Tax Credit if: (1) it has at least 1.5 M square feet of floor space; (2) was placed in service before 1945; and (3) employs at least 1,500 people.

Given the criterion in (2) above, the credit for a disadvantaged industrial facility would always be 25% of the qualified investment made in the facility during the taxable year. For vacant facilities, current law provides for a credit ranging from 15% to 25% of the qualified investment made during a taxable year depending upon the age of the facility. The 25% credit applies to facilities at least 40 years old. Currently, it is unknown how many facilities could potentially qualify for the credit as a disadvantaged industrial facility. Potentially, there is at least one facility in the state that currently meets the criteria. This facility is currently operated by Whirlpool Corporation and is located in Evansville. The facility was originally built during WW II to produce fighter aircraft for the Armed Forces of the United States, and was summarily transferred to the current tenant in 1955. The employment at the facility is approximately 2,600 to 3,900 people. This facility currently has 1.7 M square feet of floor space. Reportedly, Alcoa’s aluminum extrusion plant in Lafayette also might meet the criteria for a disadvantaged industrial facility. However, employer information on the Greater Lafayette Progress website indicates that only 900 people are employed at this facility. This would not be sufficient to meet the employment requirement in the bill.

The Industrial Recovery Tax Credit (IRTC) has been in effect since 1987 under P.L. 379-1987(ss). Since its inception, 29 tax credits have been awarded with a maximum value of about \$23.0 M. This is an average of about \$800,000 per credit awarded. The total investment in these projects equaled about \$104.9 M. Since 2000, only three tax credits have been awarded with a maximum value of about \$1.9 M and project investment totaling about \$10.1 M.

Explanation of Local Expenditures: The bill would require either an ordinance or resolution to be passed by a city allowing the city executive to submit an application to the Enterprise Zone Board requesting industrial recovery site status for a disadvantaged industrial facility.

Explanation of Local Revenues:

State Agencies Affected: Enterprise Zone Board, Indiana Department of Commerce, Department of State Revenue.

Local Agencies Affected: City of Evansville.

Information Sources: Deanna J. Oware, Indiana Department of Commerce, Community Development Division, (317) 232-8917. Mike Brooks, Greater Lafayette Progress. Greater Lafayette Progress website, <http://glpi.org>.

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